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SUBJECT: NIGERIAN PERSPECTIVES ON PROSPECTS FOR A RENEWED IMF PROGRAM

REF: (A) ABUJA 2301 (B) ABUJA 2338

¶1. (U) Classified by Ambassador Howard F. Jeter for reasons 1.5 (b) and (d).

¶2. (C) In an October 2 telcon with Debt Management Office Director-General Akin Arikawe, EconOff learned that, from recent meetings with the IMF and USG officials in Washington, the GON is cautiously optimistic of a renewed IMF program. The IMF, he said, "does not have sufficient ground to say the SBA has failed," when in fact the GON made significant progress on most benchmarks. Although Arikawe admitted that the GON had failed to stabilize the country's macroeconomic environment over the past 8 months, he believed it possible that the GON could adopt a new framework between now and December that would alleviate the imbalances in the system. He said that "President Obasanjo is more committed now than ever before."

¶3. (C) In particular, Arikawe said the GON could improve its performance on reducing excess liquidity and reduce the disparity between parallel and official exchange rates. He underscored this second issue as the most important raised by IMF officials during the recent GON visit to Washington. Arikawe opined that there was strong political sentiment attached to the current exchange rate, with some political leaders of the position that the Naira's official rate was already undervalued. Arikawe believed, however, that the official rate for the Naira needs to be weakened further -- to N115 per USD, rather than the current N112 -- while the parallel market rate should appreciate. He said the parallel rate could strengthen to N130 per USD under the current psychology of falling oil prices if the GON were careful about disbursing excess oil revenues to the State Governments (reported septel) in small, staggered tranches. On monetary policy, Arikawe averred that the CBN's poor performance on mopping up excess liquidity during the first half of the year could not be allowed to continue. He reported that the CBN had purchased more certificates on the open market than it had sold, effectively injecting N20 billion into the market.

¶4. (C) Arikawe commented that the IMF team was scheduled to visit Abuja the week of October 8 and would have the task of determining how a new program could be structured: whether it would be short or medium term and what specific benchmarks could be met under what timeline. Arikawe also reported that U.S. Treasury DAS Radelet said that the Paris Club may decide to meet to determine whether Nigeria might qualify for debt reduction under a new IMF program. The original objective of implementing the IMF's one-year Stand-by was to achieve an IMF medium-term program that would then provide the basis for debt reduction discussions with Paris Club creditors. Arikawe was hopeful that a renewed IMF program would enable these discussions to begin.

Jeter